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Mills, Ogden Livingston

Reparations and
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SPEECH
DELIVERED BY
Hon. OGDEN L. MILLS, M. C.
BEFORE
ECONOMIC CLUB OF NEW YORK
AT HOTEL ASTOR

MONDAY, NOVEMBER 27, 1922

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Mr. 2.1.125 B.1

IN THE discussion of the topic which you have selected, I propose to confine myself strictly to some of the economic aspects of the question. Frankly, I do not believe that a solution will be furthered at this time by debating whether the debts and obligations, or any part of them, should be remitted as a matter of charity or justice. Here are a group of enormous liabilities, practically none of which are being met today, but which, nevertheless, exert so great a pressure on the economic structure of the world as to constitute in their present form a serious obstacle to economic rehabilitation. The question to be asked is, not how they were incurred, or why they were incurred, but can they be paid, when can they be paid, how can they be paid, and is it wise to press for payment now, and, in certain contingencies, ever?

The reparation obligations have become in the public mind so inextricably bound with the whole problem of international indebtedness, that a discussion of either one of these problems alone seems wholly inadequate, even from a strictly American standpoint. Public opinion is, in the main, right, though the four billion dollars, more or less, owed us by Great Britain is unquestionably good, irrespective of whether that country collects from Germany or not, and though we have a much larger direct interest in German obligations than is generally supposed, namely, a direct liability of the German Government to the United States Government of some 700 million dollars. Public opinion is right, because in the case of one of our principal debtors, namely, France, the early ability to balance her budget and to pay interest on her debts is largely predicated on the collection of substantial indemnities from her former enemy; in the second place, because the economic recovery of Europe is, to a very great extent, dependent on a fully restored Germany; and, finally, because we may, from the experience of the latter country during the last two years,

learn the effect of attempting to enforce international payments upon the government of a country which has no exportable surplus of either goods or gold, and is burdened by an inconvertible paper currency. It is to this last phase of the subject that I wish first to address myself, as the one most likely to throw light on what should be our course in the immediate future, which, after all, is our primary concern today, though I am by no means one of those who would sacrifice all possible future assets to the evident and pressing dangers of the day.

Germany's ability to pay is a question of national resources and income from the standpoint of the German people, of budget from the standpoint of the German Government, and of international trade from the standpoint of transferring payments. Let us consider these in order.

The pre-war income of the German people was well over 10 billion dollars per annum. It is hard, then, to believe that their ultimate—not immediate—ability to contribute will not permit them to make the annual payments of 500 million dollars required, exclusive of the percentage of export duties, under the terms of the London Agreement. This is the amount which Signor Nitti, the Italian statesman, estimates Germany can pay, though Mr. Keynes' total is somewhat lower—not more than 300 million dollars annually.

The same conclusion can be reached in respect of the problem from the budgetary standpoint. But it seems clear here again that any substantial payments in the immediate future are out of the question. The German budget for the financial year 1921-1922 provided for the expenditure of 93½ billion marks, exclusive of reparation payments, and for revenue of 59 billion marks. At an assumed ratio of 20 paper marks to one gold mark, according to Mr. Keynes, reparations due under the London Agreement amounted to some 70 billion marks. So that, the reparation bill would more than absorb all existing revenue, which is already insufficient to meet current home needs. I know that the claim is seriously pressed in responsible quarters, that Germany can and should balance her budget now, not only for the purpose of meeting her obligations, but to put

an end to the constant depreciation of the mark. Without denying the very obvious need of a real effort on the part of the German Government to live within its income, and without questioning the undoubted and far-reaching effect on the value of the mark, of the steady use of the printing press, nevertheless, I must agree with Mr. Keynes and Professor Williams of Harvard, who both have pointed out that to demand restriction of the inconvertible paper as the fundamental cure for the whole problem is to beg the question. Mr. Williams concludes from his study of the situation that the increase in note issue has followed the decline in exchange, rather than preceded it. Let me quote a passage from a recent article by the latter which states the case with clarity:

"It seems unmistakable from Germany's experience last year that the sequence of events was as follows: the reparation payments by greatly increasing the pressure of demand for foreign bills wherewith to make remittance, and also by impairing confidence, drove down the value of the mark in exchange. Import and export prices rose in close sympathy with the exchange, and domestic prices followed upward more slowly. . . . With prices rising, the state and private demand for credit was increased. To meet customers' demands for bank notes, bankers, holding their liquid assets mainly in treasury bills and only a minimum of the non-interest-bearing Reichsbank notes, would present treasury bills for encashment in bank notes, increasing the Reichsbank's holding of treasury bills and forcing increased issues of bank notes in payment. At the same time, since the revenue of the government is relatively fixed in the budget, whereas expenditures increase continuously with the rise in prices, the resulting deficit compels further issue of bank notes and treasury bills. If this analysis is correct, relief for Germany's financial and monetary difficulties must be sought in the reparations question and the foreign trade, rather than in some point farther down the chain of consequences."

Finally, we come to the third point, namely, ability to transfer payments. In the absence of a gold surplus, this can only be done by means of foreign securities held by the German Government, or through an exportable surplus of goods. The first two methods are not available, for while Sir Reginald McKenna estimates that German Nationals still own a billion dollars of foreign investments, these are, for the most part, safely out of Germany and out of reach of the German Government; nor can I believe that they will be readily yielded up by the individuals who own them for reparation payments. Has Germany an exportable surplus of goods?

For the five years ending with 1913, imports into Ger-

many exceeded exports on an average by 370 million dollars a year, the difference representing the surplus of income from foreign investments, shipping earnings, tourist expenditures, and the like. Since the War removed most of these credits, and at the same time deprived Germany of a fair proportion of her raw materials, it is evident that, irrespective of the payment of her obligations, Germany must reorganize her own industrial internal mechanism, as well as her international trade. That this is possible is not open to dispute, and that in addition, Germany, if given a breathing space, could, without too much difficulty, find an exportable surplus, is indicated by the experience of France in 1870. The French, you will remember, paid an indemnity of one billion dollars by 1873, and in the process of payment so increased their exports that an average adverse balance of trade of 65 million dollars a year for the four years 1868 to 1871 was converted into an average favorable balance of trade of 46 million dollars in the four subsequent years. It is not unreasonable to suppose that a similar change might have occurred in Germany had the pressure exerted on her been less severe and the minimum demands been more reasonable. The fact is, however, that Germany has found it impossible even to balance exports with imports and her exchange has steadily depreciated. The last named circumstance should have favored exports, but, except for the early period succeeding the Armistice, the periods which have seen the most precipitous drop of the mark have likewise witnessed a mounting adverse trade balance. Thus, the mark fell from 1.77 cents in May, 1921, to .37½ cents in November, while expressed in terms of gold marks, the excess of imports over exports, increased from 63 million marks in May to 120 million marks in October. From November to February, 1922, the mark rallied, and during those months there was actually an excess of exports over imports. But when the mark took its last plunge, the situation was again reversed, and imports once more exceeded exports month by month. The reasons for the paradox will be found, I think, in the need for food-stuffs and raw materials—a need which had to be satisfied before exports of highly manufactured articles could begin;

in the frantic home buying which the rapidly depreciating currency encouraged, accompanied, as it was, by a fear that the home market would be stripped of goods; and finally by the measures adopted by the Government for controlling the export trade. Far from assisting exports, the depreciating exchange has had the opposite effect, while it has produced chaotic conditions in the financial, industrial, and commercial life of the country.

Thus we complete the circle and return to our starting point having found every influence, beginning with reparations, ending with an unfavorable trade balance, and including such powerful factors as government deficits, lack of public confidence, frantic buying of goods and securities at home and the forced sale of the mark abroad, all tending to a never ending depreciation of German exchange.

From all this, one fact stands out beyond dispute; that the policy pursued towards Germany since the Peace Treaty was signed has not only extracted but an insignificant amount of cash, but has resulted in such economic confusion that the industrial and commercial reorganizations and the stability which is essential to business and commercial dealings—all three of which are prerequisites to any payments—have been rendered well-nigh impossible. If Germany is to pay, reparation pressure must be relieved for a reasonable interval of time so as to permit her to stabilize her exchange, to balance her budget, and to reorganize her industrial and commercial organization. But given time, it is impossible for me to believe that German energy and efficiency will be unequal to the task of putting her own house in order and ultimately making good to a reasonable extent the damages inflicted by her war of aggression.

If we turn now to the debts owed us, we find that out of a total of some 10 billion dollars, approximately 7½ billion is owed by two countries, France and Great Britain; of this amount some 4 billion dollars by the latter country. Insofar as Great Britain is concerned, her leading statesmen and business-men have told us that she is able to pay and that she intends to pay, and I, for one, am satisfied that, no matter how willing we might be to wipe out this debt,

Great Britain could not afford to accept the abrogation of the contract without permanent damage to the credit and world financial standing acquired through the course of many generations by the consistent practice of meeting every obligation when due, until the financial promise of the British people has come to be looked upon as one that could be universally accepted without question. Have you considered the effect of remission of this debt on British credit and ability to borrow in future emergencies? I recognize, of course, the injustice which may result from Great Britain making good while she is unable to collect what is owed her, but I believe that the British people will want to pay in spite of the injustice, and that the proper course for us to pursue is to extend payment over a long period of time and at minimum interest rates.

But what of France? Here is a very different problem. The French owe Great Britain and the United States no less than 6 billion and a half dollars. Whether we look at France's ability to pay from the standpoint of her national resources, from the standpoint of her governmental budget, or from the standpoint of her international trade balance, it is quite evident that she will be unable to pay even the interest on so vast a sum in the near future. The budget for 1922 provides for an authorized expenditure of approximately 48 billion francs, of which 25 billion are for ordinary and extraordinary expenditures, and 23 billion for so-called recoverable expenditures, including reconstruction and the cost of the Army of Occupation. The revenue is estimated at some 24 billion francs, leaving a deficit of slightly over 24 billion francs to be covered through loans. On March 1st of this year, the public debt amounted to nearly 317 billion francs, of which the foreign debt accounted for approximately 75 billion. The interest charges on the internal portion of the debt now total over 13 billion 100 million francs, and it is estimated that by 1930 the debt service charges will amount to very nearly 17 billion francs per annum, or almost 460 francs per capita. If to this be added interest on the foreign debt, the burden on the French taxpayer, until relieved by substantial reparation payments,

will be a crushing one, even should it be possible to reduce current expenditures to as low a figure as 8 or 9 billion francs per annum.

The French had succeeded by the early part of 1922 in about balancing their exports and imports, though lately they have not done so well, and with the increased resources derived by the acquisition of Alsace and Lorraine and the unquestionable increase in efficiency and productive power developed during the exigencies of war, it is not unreasonable to expect that, in the long run, the country which paid a 5 billion franc indemnity in four years may eventually extinguish an obligation which at par is six and a half times that sum, particularly if France should recover at least two-thirds of the amount from Germany, which is certainly a minimum estimate of what she should collect. But France must have time. How much, no one can tell. To be unreasonable, not to give time, can have only one result: to well-nigh ruin France, without benefit to her creditors. Let those who doubt this study recent German history.

Mr. Hoover, in the illuminating speech which he made some two months ago, pointed out that prior to the war the rest of the world owed Europe some 30 billion dollars, and that it found no difficulty in meeting the interest on this huge obligation; from which he argued that war debts and obligations, vast as they might seem, could and would be liquidated. He added that the indebtedness to Europe represented a growth of 40 years, and this seems to me to be the essential difference between such an obligation and the ones we are called upon to deal with today: The one grew so slowly that international trade and finance was readily able to adjust itself so as to effect the transfer of payments without serious or, in fact, without any real disturbance. But these billions of new world obligations have come upon us overnight. Some people are amazed that ways and means cannot immediately be devised to readjust international balances, and to bring about instant payments. They deal with these debts in terms applicable to contracts between individuals and insist on the letter of the bond, utterly regardless of the existing conditions. Others, appalled at

the magnitude of the problem and the vastness of the obligations, would wipe them out altogether, irrespective of the equities, and regardless of the possibility of an ultimate solution. Both of these extreme views are, in my judgment, erroneous. Who can foretell the future, the latent possibilities of increased production which the next 40 or 50 years may bring forth? International trade doubles every twenty years, and what might be an intolerable burden today might well prove to be but a moderate one 15 or 20 years from now. Let us not anticipate the future. Let us confine our attention to the immediate present, and if the lessons of the last two years mean anything, if the picture which I have so inadequately presented to you tonight has any significance, there is no doubt but that the wise course to pursue today is to relieve the pressure for payment, to extend the time over a reasonably long period, and to fund or even waive interest, if necessary. The world has all it can do to mend the destruction of four years of war, without complicating this complex and arduous task by attempting the immediate settlement and permanent solution of these new and stupendous obligations.

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